CANADIAN HYDROCARBONS LIMITED
ANNUAL REPORT 1973

CANADIAN HYDROCARBONS LIMITED

Head Office
700 Three Calgary Place, Calgary, Alberta

Transfer Agent and Registrar
Montreal Trust Company, Calgary, Toronto and Montreal

United States Transfer Agent
Morgan Guaranty Trust Company of New York, New York

United States Registrar
Manufacturers Hanover Trust Company, New York

Stock Exchange Listings
Canada
Toronto Stock Exchange
Montreal Stock Exchange

United States
American Stock Exchange

Auditors
Clarkson, Gordon & Co., Calgary

Annual Meeting
The Annual and Special General Meeting of the Company will be held at the Calgary Inn, Calgary, Alberta at 2:00 p.m., May 8, 1974

Contents

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CANADIAN HYDROCARBONS LIMITED
1973 Annual Report

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL	1973	1972
Net earnings	$ 5,226,000	$ 3,952,000
Cash flow from operations	22,379,000	15,639,000
Gross revenue	138,342,000	106,656,000
Dividends on preferred shares	614,000	624,000
Dividends on common shares	1,245,000	1,242,000
Per common share:		
Net earnings	.91	.67
Cash flow (after preferred dividends)	4.31	3.02
Cash dividends	.25	.25
Working capital	20,469,000	18,203,000
Long term debt	71,184,000	60,565,000
Net investment in fixed assets	103,214,000	91,608,000
Total assets	177,623,000	150,392,000
Average number of common shares outstanding	5,054,000	4,969,000

OPERATING		
Propane and butane–gallonage	183,404,000	152,500,000
Gasoline and other petroleum products–gallonage	240,391,000	219,500,000
Natural gas–mcf	19,507,000	16,542,000
Electricity–kwh	42,382,000	36,469,000
Number of employees	1,660	1,371
Number of common shareholders	2,895	2,884

Gallonage figures are expressed in terms of Canadian gallons.

TO THE SHAREHOLDERS

Revenues and net earnings increased 30% and 32% respectively in 1973. This advance in net earnings was accomplished despite an increase in the consolidated effective income tax rate from 22% to 40%.

Net earnings after tax amounted to $5,226,000 in 1973 compared with $3,952,000 (restated) in 1972. This is equivalent to 91¢ per common share against 67¢ (restated) recorded in the prior year. Cash flow for the period, including income from limited term oil and gas leases, amounted to $22,379,000, an increase of $6,741,000 over 1972. On this basis, cash flow per common share after preferred dividends amounted to $4.31, an increase of 43%. The average number of shares outstanding rose to 5,054,155 in 1973 from 4,968,742 in 1972. Gross revenues in 1973 reached a record of $138,342,000 compared with $106,656,000 achieved in 1972.

Working capital was $20,469,000 at the close of 1973 including approximately $15,714,000 of cash and short term deposits.

Capital expenditures for internal growth amounted to $8,539,000 during the latest year compared with $8,356,000 so spent in 1972. In addition $9,230,000 was devoted to the acquisition of Quebec Propane Inc. effective July 1, 1973 and to Gold Rey Forest Products, Inc. effective December 28, 1973. A total of $1,498,000 was expended on the exploration program of Canadian Homestead Oils Limited during the year. Total assets at December 31, 1973 were $177,623,000 compared with $150,392,000 a year earlier.

Total long term debt including current maturities at December 31, 1973 amounted to $73,779,000 of which $17,538,000 was represented by bank production loans. These production loans, repayable for the most part out of net production revenues from oil and gas leases, should be repaid by 1978.

Dividends of $1,859,000 were paid in 1973; $1,245,000 on common shares and $614,000 on preferred shares.

The acquisition effective mid year of Quebec Propane Inc., the largest retail distributor of LPG products in Quebec had a significant effect on the Company's sales and earnings in this area. In addition to its LPG marketing operations, Quebec Propane Inc. is engaged in the distribution of gasoline and fuel oils, branded motor oils, solvents and automotive specialties. This acquisition complements the Company's existing Gasbec operations with minimal duplication or overlap in this very important Eastern Canada market area. The increased efficiencies resulting from scale and the synergy of integration have enabled the Company to keep sales prices at reasonable levels while maintaining profit margins despite the rapidly increasing costs of raw materials. Further efficiencies are expected to be realized in 1974 and future years as these two Quebec entities become even more closely merged.

The acquisition of Gold Rey Forest Products, Inc. was made late in 1973 and had no effect on that year's revenues or earnings. This Company is engaged in packaging, sorting, distributing and to a lesser extent manufacturing plywood and lumber products in the United States. The purchase of this organization is in line with the Company policy of diversification within the natural resources field. While the full effect of this acquisition is not expected during 1974, it is anticipated that it will exert a positive influence on earnings and that its potential for future years should be significant. The inclusion of this company's operations should have the added advantage of lessening the heavy seasonal variations experienced in the Company's major product lines. The Company intends to broaden its position in this segment of natural resource development as appropriate opportunities are encountered.

Although not completed during 1973, mention should be made of the acquisition effective February 1, 1974 of Thompson Pipe and Steel Company of Denver, Colorado. This Company is engaged in pipe and metal fabrication and allied activities serving primarily the water and sewage transmission industry and other natural resource fields. The inclusion of this Company in the CHL group serves to broaden the base of our U.S. operations established some years ago and further to lessen seasonal swings in sales and earnings. The Company considers the Rocky Mountain area to be one of high growth potential for these products.

PETROLEUM PRODUCTS MARKETING AND REFINING

Total revenue from our marketing and refining activities in 1973 rose to a record level of $114,544,000, an increase of 30.5% over 1972. Revenues in Canada were $75,223,000 or 65.7% of total revenues and in the United States were $39,321,000 or 34.3% of the total. The higher revenues resulted from a combination of strong product demand, higher realized product prices, and new acquisitions. The total volume of LPG, gasoline, and other refined petroleum products sold in 1973 reached a record level of 423,795,000 Canadian gallons, a 14.0% increase over 1972 sales volumes. LPG sales increased 20.3% over 1972 to a new high of 183,404,000 Canadian gallons in spite of the fact that the first quarter of 1973 was one of the warmest winter periods on record throughout our marketing area in Canada and the United States. Gasoline and refined product sales reached a total of 240,391,000 Canadian gallons in 1973, a 9.5% increase over the previous year.

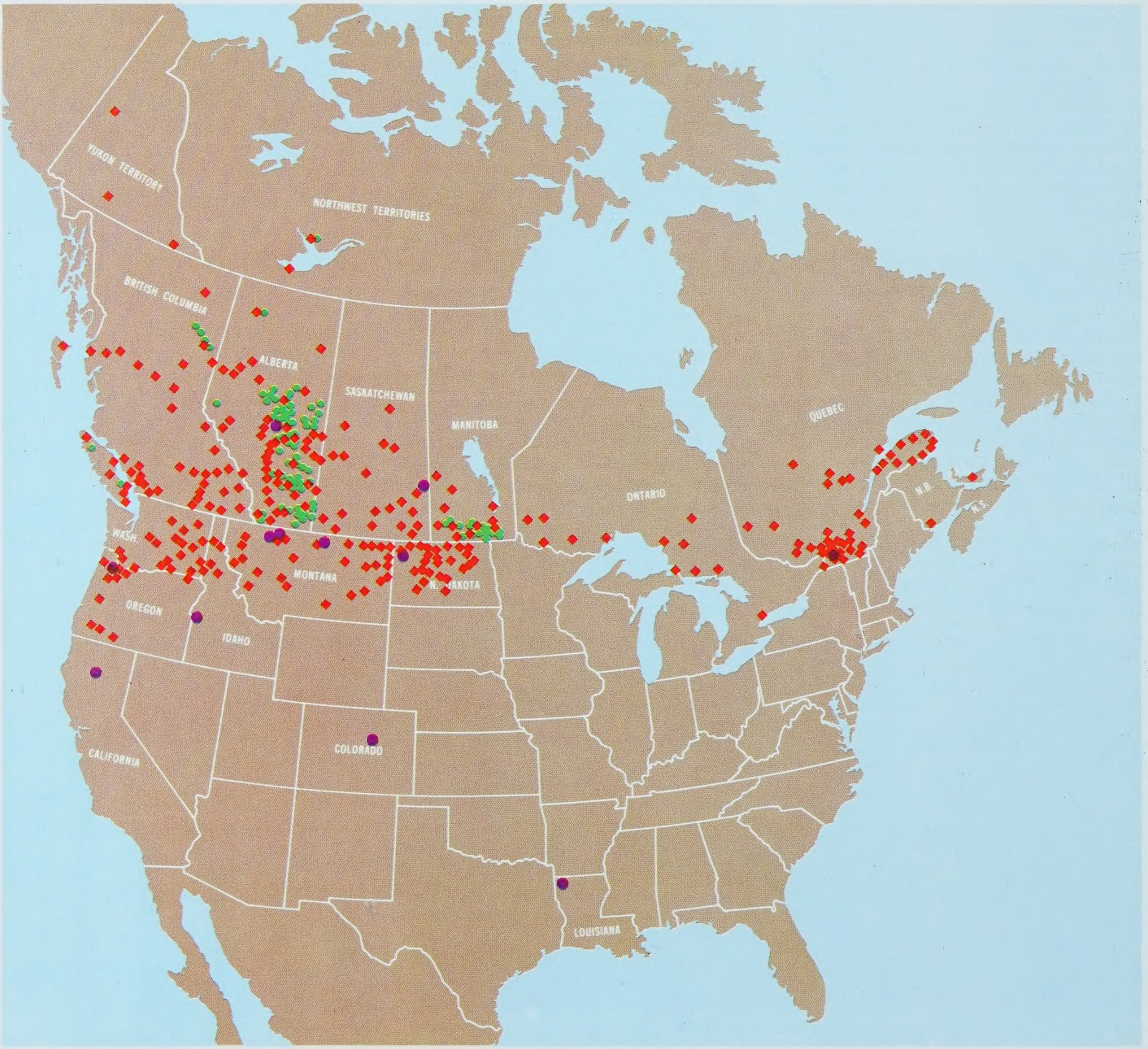
Rising costs of crude oil, natural gas, and LPG were reflected in much higher cost of sales in every major product category. Selling, operating, and administrative expenses increased a total of 17.7% over 1972 with a significant portion of the increase being attributable to new acquisitions and higher sales volumes. In spite of the cost pressures, the Company was able, by increased sales and operating costs reductions, to improve its gross margin in both its Canadian and U.S. operations. Special emphasis was given throughout the year to securing operating efficiencies, to improving our safety experience and costs, to controlling credit sales, and to improving management controls. These efforts helped offset the serious inflationary

One of the largest units of this type in Canada, a 15,000 gallon propane transport unit operated by our GasBec division in Montreal.

NET EARNINGS AND CASH FLOW PER COMMON SHARE
DOLLARS

LEGEND

- PROPANE, GASOLINE, LIGHT OILS
- UTILITIES
- REFINERIES AND PROCESSING PLANTS



CANADIAN HYDROCARBONS LIMITED and Subsidiaries

MAJOR FACILITIES AND DISTRIBUTION LOCATIONS

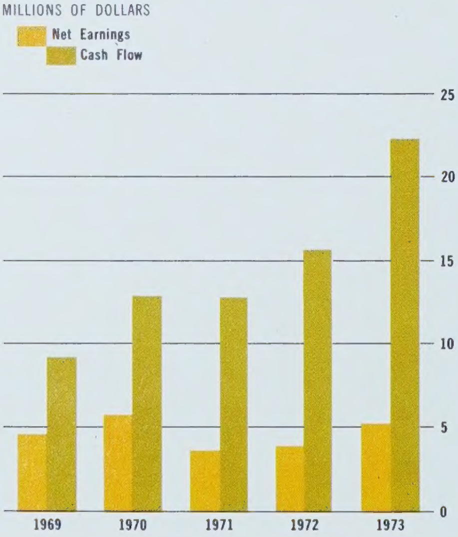
	1973 Total
FRANCHISES	
Gas	100
Electrical	1
PROPANE AND PETROLEUM PRODUCT OUTLETS	
Retail Outlets	215
Consignee Operator Outlets	210
Storage Points	13
PROCESSING PLANTS AND REFINERIES	9
FOREST PRODUCTS OUTLETS	3
RAILWAY TANK CARS	184
HIGHWAY TRANSPORTS	
Propane — Tractors	19
— Trailers	44
Petroleum Products	11
DELIVERY TRUCKS	
Propane	304
Petroleum Products	61
SERVICE VEHICLES	502
EMPLOYEES	1660
CUSTOMERS	
Propane & Utilities	235,500
MILES OF PIPELINE	
Transmission & Distribution	3,467
PROPANE STORAGE FACILITIES	
Above Ground	44,372,300
Under Ground	19,000,000

operating cost increases that we experienced.

In July, 1973, construction was started on a new branch plant and warehouse in the Metropolitan Toronto area. This will serve as the base point for continued expansion of our marketing operations in the lower Ontario market area. The Company successfully reactivated its small petroleum refinery at Kamsack, Saskatchewan in May, in response to the need for refined product capacity throughout North America. We anticipate that the refinery can continue to operate profitably and provide a needed source of refined product to its immediate market area for the near term. In late October, a $1.5 million expansion of the Company's gas processing plant at Acheson, Alberta, got underway with completion scheduled for Spring of 1974. This project will enable the Company to process the larger volume of natural gas being produced in the area and will yield a correspondingly higher level of natural gas liquids. We anticipate this investment will make an increased contribution to earnings in 1974 and subsequent years.

In the United States, the Company's refinery operations showed continued improvement throughout 1973. Total combined crude oil throughput for the year for the Williston, N.D., Cut Bank, Mont. and Kevin, Mont. refineries was 4,342,000 barrels, an increase of 21.6% over 1972. Total days on stream in 1973 increased 5.7% over the previous year. Dependable crude oil supply continued to be a critical factor. The Company imported 1,139,000 barrels of crude oil from Canada during 1973. In August, the Company secured a 30 month supply of additional U.S. crude oil averaging 2,750 barrels per calendar day or 1,003,750 barrels on an annual basis. Throughout the year, a number of minor upgrading projects were accomplished to permit us to operate at slightly higher crude capacity levels. The value of foreign crude oil import licenses to the Company declined from $957,300 in 1972 to $189,500 in 1973. This action and many other elements of the Federal price control and product allocation programmes severely penalized the small, independent refiner. In spite of this, our United States marketing and refining facilities operated at levels exceeding those of the prior year. Our marketing activities in the United States continued to emphasize the upgrading of existing retail outlets rather than expansion of the number of outlets. Our LPG sales operations showed good

NET EARNINGS AND CASH FLOW
MILLIONS OF DOLLARS



Artist's conception of newly established Toronto outlet scheduled for completion in 1974.

strength in spite of rather severe supply problems that prevailed throughout most of the country.

The Company continued during the year to strengthen its marketing and refining management group by advancing proven personnel from within the organization and by attracting experienced and effective managers from outside sources. Acquisitions brought into the Company a further source of skilled management personnel. We feel that we now have brought together the management resources to enable the Company to take full advantage of growth opportunities.

Improved field operations, strengthened management capabilities, and continued strong demand for all energy resources provide a favourable outlook for the Company's future marketing and refining activities.

UTILITIES

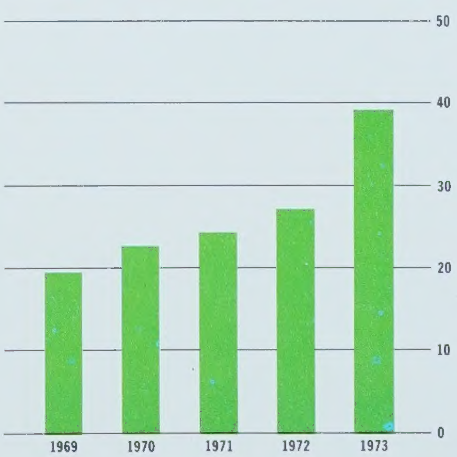
Despite weather that was warmer than that of the preceding year, sales of gas and electrical utility operations increased to $10,209,000 compared to $9,045,000 for the previous year, an increase of 12.9%. The increase in utility sales was due principally to increased volumes of industrial gas sales and increased volumes of electricity sales, which combined to offset partially the lower volume of gas sales to domestic consumers.

The volume of gas sold during 1973 was 17,460,000 Mcf, 18.6% more than the 14,723,000 Mcf in the preceding year. Sales of electricity in the City of Yellowknife increased during the year by 16.2% to 42,382,000 Kwh. Cost of sales of natural gas as a percentage of sales increased during the year by five percentage points, whereas cost of electricity was about the same as in the preceding year. The pressure of increased expenses and the increased cost of sales had a depressing effect on the Company's earnings, but with the close attention given to these costs the effects were minimized.

Capital expenditures during the year, net of customer's contributions, amounted to $1,656,000 for construction in the natural gas and electricity operation. Four hundred and five miles of transmission and distribution pipe were installed, part of which was for new systems in three urban communities and one rural area. At year end the Company served 34,389 gas utility customers through 3,467 miles of pipe in 77 urban communities and 23 rural

Calgary, Alberta, head office of the Company forms the background to 10,000 gallon propane transport unit.

PROPANE REVENUE
MILLIONS OF DOLLARS



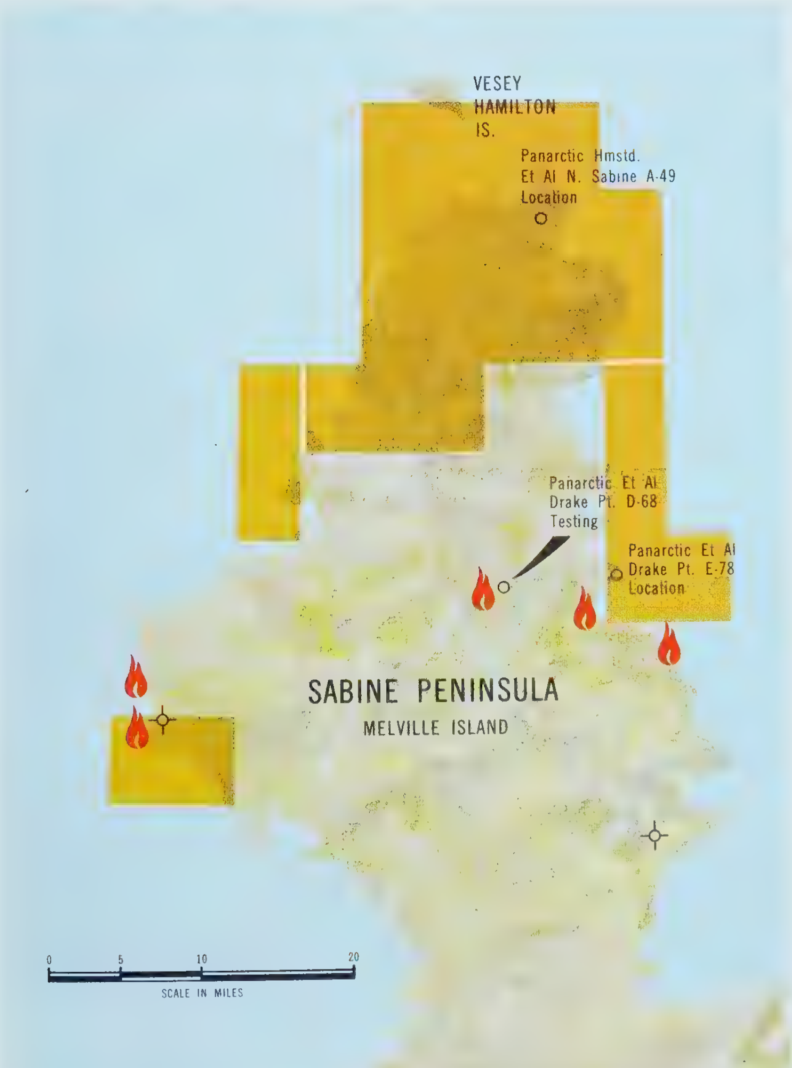
LEGEND

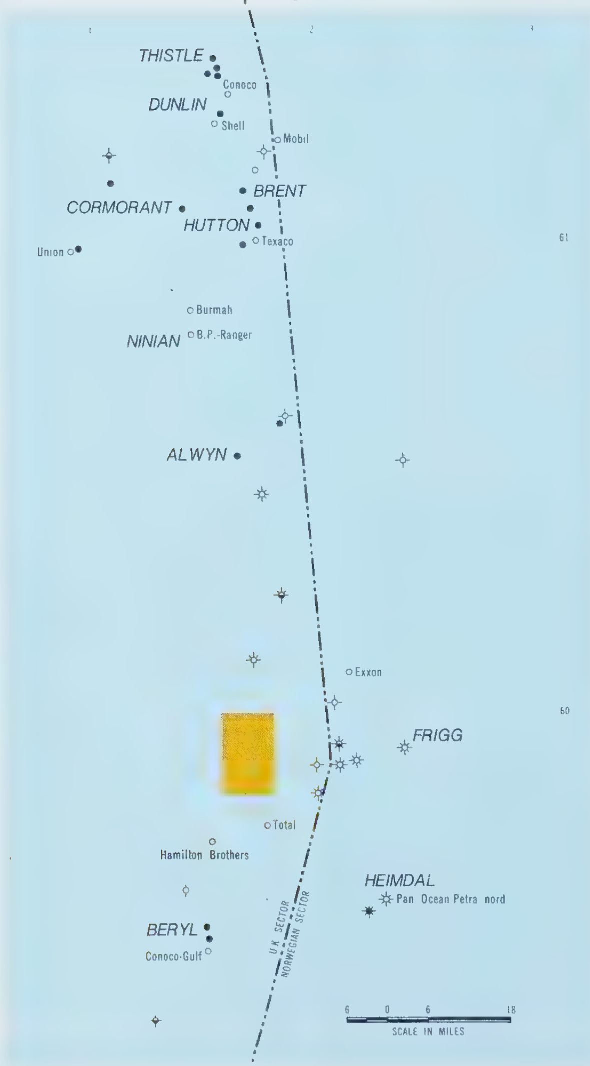
NORTHERN CANADA

- Homestead Interests
- Gas Discoveries
- Oil Discoveries
- Location or Drilling Well

LEGEND
NORTH SEA
- Homestead Interests
- Location or Drilling Well
- Gas Well
- Gas & Oil Well
- Oil Well
- Gas Well with Oil Shows
- Gas and Oil Shows
- Gas Shows
- Oil Shows
- Suspended Well
- Dry Hole

LEGEND
SABINE PENINSULA
- Homestead Interests
- Gas Wells
- Location or Drilling Well
- Dry Hole





areas. The number of electricity users in the City of Yellowknife increased by 8.4% to 2,407.

CANADIAN HOMESTEAD OILS LIMITED

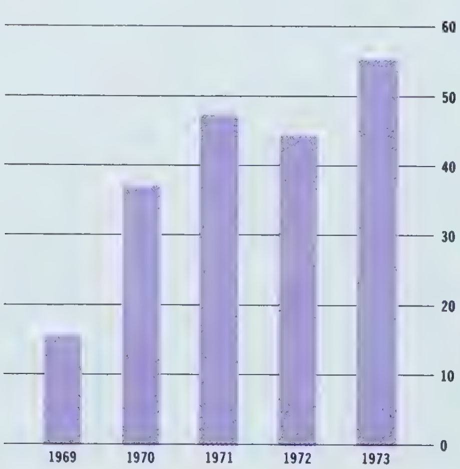
In 1968 an agreement was entered into whereby the Company committed to expend by December 31, 1974, an aggregate of $9,000,000 in exploration and drilling operations on Homestead properties. Through December 31, 1973 a total of $7,261,000 has been spent and has earned 1,320,000 shares. These shares, in combination with the 629,900 held by Castle Oil & Gas Limited, a Hydrocarbons' subsidiary, gives the Company control of 35% of Homestead's common shares outstanding. In 1974 another 316,182 shares will be received upon the expenditure of the $1,739,000 remaining under the commitment phase of this agreement. The Company has an option to acquire an additional 1,381,838 shares by spending a further $9,212,000. Should this option be exercised, the Company could eventually control 49% of Homestead.

Homestead's production of crude oil and condensate currently averages 2,100 barrels per day, while natural gas sales approximate 6.5 Mmcf daily. Recent and proposed price increases for both crude oil and natural gas will substantially enhance Homestead's cash flow and earnings.

Exploration activity during the past year has been concentrated in the Province of Alberta with successful wells being drilled in the Kaybob, Cowpar and Rosevear areas. The most significant of these is the Kaybob 7-11 test which was a follow-up to the initial Kaybob 10-2 discovery. A gas cycling scheme and plant have been proposed for the area which could, by 1976, increase Homestead's condensate production significantly. Further drilling will be required before the Cowpar and Rosevear discoveries can be fully assessed.

The recent energy crisis has placed greater import on heavy oil sands. Homestead holds substantial acreage in the North Marten Hills, Wabisca and Springburn areas of Alberta where these sands have been established. The ultimate recoverable reserves are difficult to determine because the extent of the productive areas has not been determined nor have economic production techniques been developed.

GASOLINE, FUEL OILS AND OTHER REFINED PRODUCTS REVENUE
MILLIONS OF DOLLARS



Propane bulk storage tanks being loaded at Hay River, N.W.T., to ship for use in the Canadian Arctic.

Attention continues to focus on the frontier areas, particularly the Arctic Islands and the North Sea, where significant hydrocarbon discoveries continue to be made. The Sabine Peninsula of Melville Island, in the Arctic, has been the scene of two major gas discoveries, at Drake Point and Hecla. Homestead holds substantial acreage blocks in close proximity to both areas and has a 37.5% interest in Permit #1832 (30,000 acres) on which the successful Panarctic Tenneco et al Hecla 1-69 test was drilled. An offshore well, Panarctic W. Hecla N-52, is currently being drilled five miles west of Permit #1832 in order to further delineate the Hecla structure. At Drake Point, the D-68 "deep test" has bottomed at 17,766 feet and is presently being evaluated. Seven miles east of this well, Homestead has a 75% interest in Permits A1829 and A1830 covering 60,000 acres directly offsetting the Drake Point field. A well Panarctic et al Homestead Drake E-78 will soon be drilled on Permit A1829 as an extension test of the Drake Point structure.

Immediately north of the Hecla and Drake Point discovery areas, a group of companies headed by Homestead have farmed-in 250,000 acres presently held by Panarctic, Prairie Oil Royalties and B.P. Exploration.

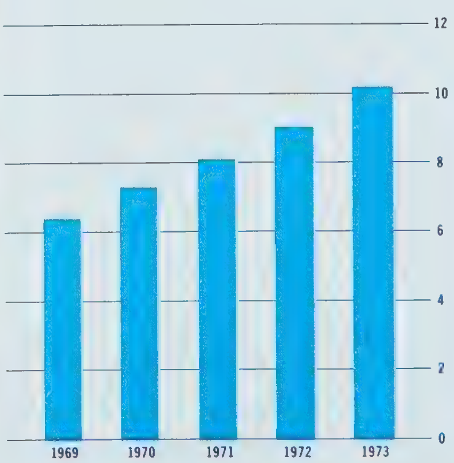
The terms of the Agreement require the group to conduct an extensive seismic program, which has now been completed, as well as the drilling of a 12,000 foot Triassic test which will commence immediately. Adjoining this farmed-in acreage to the west is Permit #1831 covering 30,000 acres in which Homestead has a 75% interest.

On Banks Island, Homestead participated in a seismic survey to evaluate lands in which it holds an interest. Based on the results of this survey, a well will likely be drilled on this acreage.

In the highly prospective United Kingdom sector of the North Sea, an 11.5% interest is held in a 51,000 acre production license covering Block 9/4. This acreage is located seven miles west of the Frigg gas—condensate field. Seismic surveys have been completed on this parcel as a prelude to future drilling. An exploratory test, BP/Iranian 3/29-1, located seven miles north of Block 9/4 is classified as a suspended potential gas well, while seven miles to the south, a well, Hamilton Bros. 9/8-1 has recently been spudded. These and other wells proposed for the area will be of utmost significance in determining the prospects for this holding.

Propane in cylinders delivered by helicopters to remote Arctic sites, await commencement of drilling operations.

UTILITIES REVENUE
MILLIONS OF DOLLARS



Homestead's foreign participation has been extended into other areas as well, including a 25% participation in a 6,500,000 acre concession in Kenya. A surface geological survey has been conducted on this acreage in order to establish its potential. Applications for concessions in other jurisdictions are pending.

While Homestead continues to make steady progress in its drilling program in Alberta, the significance of its land position and its activities in frontier and foreign areas grows substantially. The energy shortage in North America coupled with the discoveries in the Arctic, notably on Melville Island, have greatly improved both the short and medium-term outlook.

URANIUM

As in the past, the Company continues to maintain a relatively low rate of production at the two small mines in the Uravan district of Colorado in which the Company has a 40% interest. While the future of nuclear energy looks even brighter because of the current energy shortage, ore prices have not yet risen to levels that would justify more extensive operations.

The research project on in situ leaching of uranium ore, in which the Company participates in partnership with a number of other companies, has now completed its first full year of field operations. Although it is too early to say whether these activities will result in a commercially attractive alternative to currently employed mining techniques, the results to date have been encouraging. It is at present contemplated that next year's field operations will be conducted on Company acreage.

MANAGEMENT

During the year, Anthony C. Rooney was appointed Vice-President, Finance and Chief Financial Officer of the Company replacing Dennis A. Anderson, who resigned to return to the private practice of accounting. Mr. Rooney, who continues as President of the Company's wholly owned subsidiary, Great Northern Gas Utilities Ltd., brings to his new responsibilities 30 years of financial and managerial experience in Canada. Simultaneously, Harold R. Allsopp was appointed Treasurer of the Company. Mr. Allsopp, who is a Chartered Accountant with a graduate degree in Business Administration, was previously Controller of the Company. In September, John E. Carstairs was appointed Secretary of the Company replacing William A. Troughton, who resigned to return to the practice of law. Mr. Carstairs is a lawyer with 15 years experience in both private and corporate practice.

OUTLOOK

In reviewing the substantial improvement in earnings over the previous year, perhaps the most significant factor is that these results were realized in a most difficult business environment. The energy shortage in the U.S. created massive problems for consumers, producers and governments alike. Wage and price controls of varying degrees were in effect throughout the year resulting in both operating and administrative difficulties. The cost of crude oil to the Company's refineries from both United States and Canadian sources more than doubled. Although regulations permitted the passing through of these cost increases, they also provided for significant delays with an attendant squeeze on profits. Labour and other costs continued to rise during the year thus increasing both operating and administrative overhead.

Against this difficult background, after tax earnings increased by 32%. This required the closest attention to cost reduction and profit improvement in all areas. Production and sales from existing facilities were increased and selling prices were advanced where possible to cover increases in the cost of purchases. The acquisition of Quebec Propane Inc., effective at mid-year, also had a positive effect on both sales and earnings.

The Company enters 1974 with the conviction that the problems encountered in 1971 are firmly behind it. While the energy shortage with its associated problems remains a fact of life, management controls installed over the past two years have put the Company in a posture to overcome these difficulties and to exact a satisfactory return from the employment of its assets. The acquisition of Gold Rey Forest Products, Inc. and Thompson Pipe and Steel Company should make a contribution to earnings in 1974 and more importantly should provide a new base for substantial further growth in future years. The Company intends to pursue its acquisition program in an aggressive but highly selective manner thus adding external to internal growth.

Raymond A. Rich,
Chairman of the Board

Paul M. Marshall,
President

April 17, 1974.

CONSOLIDATED STATEMENT OF EARNINGS Years ended December 31, 1973 and 1972

	1973	1972
Revenue		
Sales	$123,940,630	$ 96,029,564
Income from limited term oil and gas leases	9,975,188	6,522,414
Installation rentals	2,453,468	2,175,936
Interest and other income	1,972,708	1,928,465
	138,341,994	106,656,379
Expenses		
Cost of sales	82,281,017	63,088,330
Operating, selling and administrative expenses	26,311,206	22,347,554
Interest and expense on long term debt	4,344,326	3,535,602
Other interest expense	801,498	736,205
Depreciation	4,610,953	3,998,789
Depletion		
Limited term oil and gas leases	9,489,639	6,172,680
Other	1,281,377	1,163,729
Equity in net earnings of affiliate (Note 2)	212,205	227,432
Minority interest in earnings of subsidiaries		
Preferred share dividends	152,887	157,800
Other	202,705	165,011
	129,687,813	101,593,132
Earnings before income taxes	8,654,181	5,063,247
Income taxes (Note 9)	3,427,710	1,111,267
Net earnings for the year	$ 5,226,471	$ 3,951,980
Net earnings per common share (Based on average number of shares outstanding)	$ .91	$ .67

See accompanying notes.

CANADIAN HYDROCARBONS LIMITED and subsidiaries

CONSOLIDATED BALANCE SHEET December 31, 1973 and 1972

ASSETS

	1973	1972
Current		
Cash	$ 2,838,935	$ 2,343,923
Short term deposits	12,875,000	12,568,189
Accounts and notes receivable	26,201,547	19,202,747
Inventories at lower of cost or replacement cost	12,333,122	8,402,924
Prepaid expenses	736,081	381,782
	54,984,685	42,899,565
Investments		
Shares of Canadian Homestead Oils Limited (Notes 2 and 4)	10,897,556	9,636,437
Other at cost	1,562,495	1,840,822
	12,460,051	11,477,259
Fixed at cost (Note 5)	140,792,254	124,781,724
Less accumulated depreciation and depletion	37,578,709	33,173,677
	103,213,545	91,608,047
Other		
Note receivable from director and officer	256,250	256,250
Debt financing and other deferred charges less amounts written off	1,278,912	1,320,242
Cost of shares of subsidiaries over net book value at dates of purchase (Note 3)	5,429,433	2,830,567
	6,964,595	4,407,059
	$177,622,876	$150,391,930

On behalf of the Board:

Director.

Director.

See accompanying notes.

LIABILITIES

	1973	1972
Current		
Bank loans and bankers' acceptances ($3,375,000 secured)	$ 7,953,390	$ 8,055,000
Accounts payable and accrued charges	20,602,779	13,392,418
Income taxes payable (Note 9)	2,353,747	674,559
Current maturities of long term debt (Note 6)	2,595,869	1,693,137
Deferred income	1,010,273	881,158
	34,516,058	24,696,272
Long term debt (Note 6)	71,183,590	60,564,504
Deposits	473,115	465,138
Deferred income taxes (Note 9)	3,267,636	1,484,215
Customers' contributions in aid of construction	2,924,880	2,465,340
Minority interest in subsidiaries (Note 7)	5,390,749	5,261,313

SHAREHOLDERS' EQUITY

	1973	1972
Capital (Note 8)		
Authorized		
250,000 first preferred shares, par value $20 each		
4,000,000 second preferred shares, par value $25 each		
14,000,000 common shares, no par value		
Outstanding		
218,255 5½% cumulative redeemable first preferred shares (1972—221,755 shares)	4,365,100	4,435,100
244,400 6% cumulative redeemable second preferred shares (1972—248,300 shares)	6,110,000	6,207,500
5,129,680 common shares (1972—4,973,880 shares)	24,235,579	23,023,729
	34,710,679	33,666,329
Retained earnings (Note 10)	25,156,169	21,788,819
	59,866,848	55,455,148
Commitments and contingencies (Notes 4 and 12)		
	$177,622,876	$150,391,930

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

Years ended December 31, 1973 and 1972

	1973	1972
Source of funds		
Operations		
Net earnings for the year	$ 5,226,471	$ 3,951,980
Add items not requiring the outlay of cash		
Depreciation	4,610,953	3,998,789
Depletion		
Limited term oil and gas leases	9,489,639	6,172,680
Other	1,281,377	1,163,729
Deferred income taxes	1,028,480	257,083
Equity in net earnings of affiliate	212,205	227,432
Minority interest	202,705	165,011
Other	327,559	(298,176)
Cash flow from operations	22,379,389	15,638,528
Issue of common shares	1,211,850	67,680
Disposal of fixed assets	1,040,064	1,350,839
Additional long term debt	23,543,880	10,585,806
	48,175,183	27,642,853
Use of funds		
Investment in subsidiaries	9,229,832	3,119,743
Deduct net working capital at dates of acquisition	542,095	445,526
Net investment	8,687,737	2,674,217
Additions to fixed assets	19,548,283	15,364,086
Dividends on common and preferred shares	1,859,121	1,866,273
Reduction of long term debt	14,231,385	8,273,771
Investment in Canadian Homestead Oils Limited	1,498,324	1,352,693
Redemption of first and second preferred shares	167,500	167,500
Other	(82,501)	234,029
	45,909,849	29,932,569
Increase (decrease) in working capital	$ 2,265,334	$ (2,289,716)
Changes in working capital represented by		
Increase (decrease) in current assets		
Short term deposits	$ 306,811	$ 57,661
Accounts and notes receivable	6,998,800	(817,535)
Inventories	3,930,198	612,874
Other	849,311	(270,946)
	12,085,120	(417,946)
(Increase) decrease in current liabilities		
Accounts payable and accrued charges	(7,210,361)	(1,781,330)
Income taxes payable	(1,679,188)	(92,998)
Current maturities of long term debt	(902,732)	(210,422)
Other	(27,505)	212,980
	(9,819,786)	(1,871,770)
Increase (decrease) in working capital	$ 2,265,334	$ (2,289,716)

See accompanying notes.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS Years ended December 31, 1973 and 1972

	1973	1972
Balance at beginning of year		
As previously stated	$22,766,578	$20,453,439
Deduct		
Adjustment to reflect equity in affiliate (Note 2)	776,083	548,651
Prior years' income taxes	201,676	201,676
As restated	21,788,819	19,703,112
Add net earnings for the year	5,226,471	3,951,980
	27,015,290	23,655,092
Deduct dividends		
First preferred shares	241,813	245,581
Second preferred shares	372,450	378,300
Common shares	1,244,858	1,242,392
	1,859,121	1,866,273
Balance at end of year	$25,156,169	$21,788,819

See accompanying notes.

AUDITORS' REPORT

To the Shareholders of
Canadian Hydrocarbons Limited.

We have examined the consolidated balance sheet of Canadian Hydrocarbons Limited and subsidiaries as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting policy explained in Note 2 to the consolidated financial statements.

Clarkson, Gordon & Co.

Calgary, Canada.
March 8, 1974.

Chartered Accountants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1973

1. Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Hydrocarbons Limited and all its subsidiaries. United States dollar amounts have been translated to Canadian dollars on the basis that $1.00 U.S. equals $1.00 Canadian.

Business Combinations

Companies acquired during the year have been accounted for as purchases. The purchase price has been allocated to assets based on appraisals and any remaining difference is recorded as "cost of shares of subsidiaries over net book value at dates of purchase".

Fixed Assets, Depreciation and Depletion

Fixed assets are recorded at cost which policy includes the full-cost method of accounting for oil and gas properties. Depreciation is provided on a straight line basis at varying rates from 2% to 25% which are designed to amortize the cost of the assets over their estimated useful lives.

Oil and gas properties, oil and gas royalties and mining properties are depleted on a unit of production method based on estimated remaining reserves. Limited term interests in oil and gas leases are depleted over their remaining terms of up to four years.

Income Taxes

The Company follows the practice of tax allocation with respect to all timing differences (principally depreciation) with the exception of intangible costs which is in accordance with general practice in the Canadian oil and gas industry.

2. Change in Accounting Policy

During the year the Company adopted retroactively, the equity method of accounting for its investment in Canadian Homestead Oils Limited. Under the cost method previously employed, the Company's share of undistributed net income less amortization of the excess of cost over net book value at date of acquisition had not been deducted from income. No dividends have been received. To give effect to the change, retained earnings at January 1, 1972 has been reduced by $548,651 and net earnings for 1973 and 1972 have been reduced by $212,205 and $227,432 respectively. The carrying value of the investment recorded in the balance sheet has been reduced accordingly.

3. Business Combinations

Effective July 1, 1973 the Company acquired all the outstanding common shares of Quebec Propane Inc. in exchange for 150,000 common shares of Canadian Hydrocarbons Limited and a 9% promissory note in the amount of $4,750,000 repayable in 10 equal annual instalments commencing in 1974. The purchase cost of $5,979,832 was allocated on the basis of $3,432,804 for the net book value of assets acquired and $2,547,028 as an adjustment to fair value of fixed assets acquired.

Effective December 28, 1973 the Company acquired all the outstanding common shares of Gold Rey Forest Products, Inc., Payette Plywood and Lumber, Inc. and Gold Rey Properties, Inc. for a total consideration of $3,250,000 of which $350,000 was paid in 1973 and $1,450,000 was paid January 4, 1974. The balance of the purchase price, $1,450,000 is evidenced by 5% promissory notes repayable on January 1, of the years 1975 through 1979. The net book value of assets acquired amounted to $1,705,392 and the balance of the purchase consideration, $1,544,608, was allocated to excess of cost of shares over net book value at date of purchase to be amortized over twenty years.

These acquisitions have been accounted for as purchases and accordingly, earnings of the subsidiaries have been included in consolidated earnings since effective date of acquisition.

4. Investment in Canadian Homestead Oils Limited

Under the terms of an agreement entered into between Canadian Propane Gas & Oil Ltd. (a wholly owned subsidiary) and Canadian Homestead Oils Limited in 1968, Canadian Propane committed to expend $9,000,000 in the conduct of drilling and exploration operations on Homestead properties to December 31, 1974. As consideration for such expenditures, Canadian Propane receives one common share of Homestead for each $5.50 so expended. To December 31, 1973, $7,261,000 has been expended under the terms of the agreement ($1,498,000 in 1973). Canadian Propane has an option to expend a further $9,212,000 on the exploration of Homestead properties from January 1, 1975 to December 31, 1977 in consideration for common shares of Homestead at the rate of one

common share for each $6.67 so expended or alternatively the funds may be applied directly to the purchase of Homestead common shares at a cost of $6.67 per share.

In addition, the Company owns 83.5% of the outstanding common shares of Castle Oil & Gas Limited, which company's principal asset is 629,900 common shares of Homestead.

At December 31, 1973 Canadian Propane had granted options which were outstanding to officers and employees of Homestead to purchase 104,875 common shares of Homestead at prices ranging from $5.50 to $8.00 per share, exercisable on various dates to December, 1977. During the year Canadian Propane sold 4,000 common shares of Homestead on the exercise of stock options for an aggregate consideration of $31,250.

At December 31, 1973 the companies held a total of 1,903,883 shares of Homestead with a quoted market value of $13,042,000 which investment represents 35.1% of the outstanding common shares of Homestead at that date.

5. Fixed Assets

	1973	1972
Customers' installations	$ 29,861,895	$ 22,852,607
Transmission lines and distribution systems	25,748,647	23,575,893
Buildings and equipment	26,185,789	23,321,378
Refineries and gas plants	9,480,275	9,134,940
Automotive equipment	9,643,599	8,704,993
Oil, gas and mining properties and equipment	9,673,544	9,610,840
Oil and gas royalties	7,098,763	7,098,763
Limited term oil and gas leases	18,720,550	16,538,687
Land	4,379,192	3,943,623
	140,792,254	124,781,724
Less		
Accumulated depreciation	27,690,115	25,119,662
Accumulated depletion	9,888,594	8,054,015
	37,578,709	33,173,677
	$103,213,545	$ 91,608,047

6. Long Term Debt

	1973	1972
Parent		
7% Promissory Note, due 1981	$ 2,728,889	$ 3,070,000
Interest free, convertible, promissory note due 1976 ($350,000 U.S.) (Note 8)	350,000	350,000
9% Promissory Note, due 1983 (Note 3)	4,750,000	
Subsidiaries		
11% Bank Loan due 1976 ($2,800,000 U.S.)	2,800,000	2,800,000
5% Promissory Notes due 1978 ($1,450,000 U.S.) (Note 3)	1,450,000	
6½% Sinking Fund Debentures due 1981	1,833,000	2,208,000
6¼% Sinking Fund Debentures due 1982	1,206,000	1,316,000
6% Sinking Fund Debentures due 1985	7,594,500	7,896,000
6½% Sinking Fund Debentures, due 1987 ($2,961,321 U.S.)	2,961,321	3,071,000
7¼% Promissory Note due 1989 ($3,880,000 U.S.)	3,880,000	3,920,000
5% Subordinated Debentures due 1975 to 1989 ($4,490,471 U.S.)	4,490,471	4,490,471
5% Subordinated Notes due 1976 to 1990 ($4,702,075 U.S.)	4,702,075	4,702,075
9⅝% Sinking Fund Debentures due 1977 to 1991 ($7,000,000 U.S.)	7,000,000	7,000,000
8⅝% Promissory Notes due 1975 to 1993	4,500,000	
6½% to 10¾% Bank Production Loans (secured by oil and gas properties), due on various dates to 1978	17,537,974	17,993,402
Notes and Mortgages, due on various dates	5,995,229	3,440,693
	73,779,459	62,257,641
Less current maturities included in current liabilities	2,595,869	1,693,137
	$71,183,590	$60,564,504

Current maturities included in current liabilities do not include estimated repayments of bank production loans in 1974. Long term debt repayments, including estimated bank production loans repayments, in each of the five years subsequent to December 31, 1973 are as follows:

	Bank Production Loans	Other	Total
1974	$6,013,348	$ 2,595,869	$ 8,609,217
1975	5,440,100	3,054,057	8,494,157
1976	3,444,200	6,763,303	10,207,503
1977	2,123,700	3,613,067	5,736,767
1978	181,000	3,601,411	3,782,411

Financing expenses are being amortized over the terms of the issues.

7. Minority Interest in Subsidiaries

	1973	1972
Preferred shares of Great Northern Gas Utilities Ltd.	$2,507,500	$2,580,000
Other	2,883,249	2,681,313
	$5,390,749	$5,261,313

8. Capital

Under provisions relating to the outstanding preferred shares, the Company is required to purchase annually for redemption, $70,000 par value first preferred shares and $97,500 par value second preferred shares if available on the open market, at a price not exceeding their par value. The Company has satisfied these requirements to December 31, 1973. In addition, the first and second preferred shares are redeemable by the Company at any time at prices not exceeding $21.10 and $26.50 per share respectively.

To December 31, 1973, the Company has redeemed 31,745 first preferred shares of an aggregate par value of $634,900 (3,500 shares in 1973) and 15,600 second preferred shares of an aggregate par value of $390,000 (3,900 shares in 1973). Accordingly, under provisions of the Canada Corporations Act, consolidated retained earnings include $1,024,900 designated as "capital surplus".

At December 31, 1973, 74,575 common shares were reserved for the granting of future options under the Employees' Qualified Stock Option Plan. During 1973, options to purchase 32,000 common shares were granted by the directors to officers and employees and 4,300 shares were cancelled. At December 31, 1973, 71,125 options were outstanding under the Plan at prices ranging from $7.875 to $12.00 per share.

In addition, the interest free, convertible, promissory note of the Company in the amount of $350,000 U.S. is convertible at any time to December 31, 1976 at the rate of $12.00 per share. See Note 6.

Options were outstanding to purchase 25,000 common shares at prices ranging from $10.625 to $12.50 granted by the directors to officers and employees prior to the creation of the Employees' Qualified Stock Option Plan. During 1973, 5,600 of these options were cancelled and the Company issued, on the exercise of options, 5,800 common shares for a cash consideration of $30,600.

9. Income Taxes

For income tax purposes the companies claim capital cost allowances (depreciation) and certain other charges in amounts which are different from the related charges to earnings. The companies follow the accounting practice of tax allocation with respect to such differences, except in the case of subsidiary companies engaged in the operation of public utilities which record only income taxes payable in determining rates. During 1973 claims for tax purposes of non-regulated companies exceeded depreciation and certain other charges provided in the accounts and deferred income taxes of $1,028,000 were provided thereon.

For Canadian income tax purposes the companies may also claim drilling, exploration, property acquisition costs and costs of limited term interests in oil and gas leases (intangible costs) in amounts which exceed the related charges to earnings. In addition, the companies are entitled to claim drilling and exploration costs incurred under the share acquisition agreement with Homestead (see Note 4), which shares are recorded in amounts equal to the total expenditures. As a result, income taxes in respect of earnings reported for 1973 and 1972 have been reduced.

The companies, in accordance with general practice in the oil and gas industry, make no provision for deferred income taxes in respect of such excess deductions since they believe that tax allocation accounting, as recommended by the Canadian Institute of Chartered Accountants, is not appropriate for costs of this nature.

Contrary to Canadian practice, U.S. income tax laws do not allow drilling, exploration and property acquisition costs to be written off in the year of expenditure. Such costs are depleted for income tax purposes in amounts which approximate related charges to earnings.

If the tax allocation basis of accounting had been followed for all timing differences between taxable income and recorded earnings the income tax provision would have been increased and net earnings for the year would have been decreased by $1,695,000—$.34 per share ($1,662,000—$.33 per share in 1972).

The accumulated unrecorded income tax reductions related to all timing differences in the current and prior years amount to approximately $16,827,000 at December 31, 1973.

Accumulated expenditures remain to be carried forward and applied against future Canadian and U.S. taxable income as follows:

	1973	1972
Canada		
Drilling, exploration, property acquisition costs and limited term interests in oil and gas leases	$ 49,000	$ 525,000
Undepreciated capital cost	33,181,000	28,658,000
United States		
Drilling, exploration and property acquisition costs	7,170,000	7,910,000
Undepreciated capital cost	8,560,000	7,781,000

Various provincial securities commissions in Canada have recently questioned the appropriateness of not following tax allocation accounting with respect to intangible costs and the oil and gas industry has prepared and submitted a background study to the commissions in February, 1974. The commissions have indicated that unless, as a result of the study, they are satisfied with the basis for departing from such procedures, companies in the oil and gas industry should be prepared to adopt tax allocation accounting effective in 1974 in respect of these costs.

10. Dividend Restrictions

The provisions relating to the Company's preferred shares contain restrictions as to the declaration and payment of cash dividends on common shares, the most restrictive of which at December 31, 1973 limits the payment of such dividends to an amount which would reduce consolidated retained earnings to $7,500,000.

11. Additional Statutory Information

During the year the Company had thirteen directors and eight officers who were paid the following remuneration.

	Directors	Officers	Total
Paid by the Company	$ 35,400	$207,550	$242,950
Paid by Subsidiaries	14,600	83,736	98,336
	$ 50,000	$291,286	$341,286

Two officers, who were also directors, received no remuneration in their capacity as directors of the Company.

The remuneration paid to directors and senior officers of the Company during 1973 (defined by The Securities Act of Ontario as including the five highest paid employees of the Company and its subsidiaries) amounted to $444,588.

12. Commitments and Contingencies

In addition to the commitments outlined in Note 4, the companies have entered into long term contracts to lease certain fixed assets at annual rentals of approximately $960,000.

13. Subsequent Event

Effective February 1, 1974 the Company acquired all the outstanding common shares of Thompson Pipe and Steel Company for a total consideration of $2,750,000. The net book value of Thompson Pipe and Steel Company at the date of acquisition was $2,837,650.

TEN YEAR REVIEW

SUMMARY OF CONSOLIDATED STATEMENTS OF EARNINGS for the years ended on the dates shown
(in thousands, except where amounts are given on per share basis)

	December 31 1973	December 31 1972	December 31 1971
REVENUE			
Sales	$123,941	$ 96,030	$ 92,323
Income from limited term interests in oil and gas leases	9,975	6,522	4,737
Installation rentals earned	2,453	2,176	1,880
Interest and other income	1,973	1,928	2,330
	138,342	106,656	101,270
EXPENSES			
Cost of sales	82,281	63,088	64,315
Operating, selling and administrative expenses	27,113	23,084	20,022
Interest and expense on long term debt	4,345	3,536	2,819
Depreciation and depletion	15,382	11,335	8,642
Minority interest in earnings	355	323	293
Equity in net earnings of affiliate	212	227	240
	129,688	101,593	96,331
EARNINGS			
Earnings before income taxes	8,654	5,063	4,939
Income taxes	3,428	1,111	1,321
Net earnings before extraordinary items	5,226	3,952	3,618
Extraordinary items	—	—	—
Net earnings	5,226	3,952	3,618
Dividends on preferred shares	614	624	634
Net earnings applicable to common shares	$ 4,612	$ 3,328	$ 2,984
Financial and other information			
Working capital	$ 20,469	$ 18,203	$ 20,493
Long term debt	71,184	60,565	59,239
Preferred shares	10,475	10,643	10,810
Common shareholders' equity	49,391	44,812	42,658
Common shareholders' equity per share	9.63	9.01	8.60
Earnings per common share	.91	.67	.60
Dividends per common share	.25	.25	.25
Cash flow from operations	22,379	15,639	12,830
Cash flow per share applicable to common shares	4.31	3.02	2.46
Purchase of fixed assets (net)	18,508	14,013	18,998
Fixed assets including cost of shares of subsidiaries over net book value	108,643	94,439	87,145
Gasoline and other petroleum products sales	55,515	44,593	47,634
Propane sales	39,463	27,269	24,423
Natural gas sales	9,154	8,158	7,388
Oil and gas production sales (including limited term oil and gas leases)	11,818	8,421	5,660
Merchandise sales	15,966	11,778	9,975
Other sales	2,000	2,332	1,980
Gallonage—total propane, gasoline and other petroleum products	423,795	372,000	361,973
Number of common shares outstanding at year-end	5,130	4,974	4,964

Notes:

The information gives retroactive effect to stock splits, income tax and equity in net earnings of affiliate re-assessments.

Gallonage figures are expressed in terms of Canadian gallons.

December 31 1970	December 31 1969	December 31 1968	December 31 1967	December 31 1966	December 31 1965	March 31 1965
$ 74,052	$ 47,811	$ 33,189	$ 28,199	$ 15,879	$ 14,322	$ 13,503
3,904	1,878	732	119	61	—	—
1,836	1,681	1,499	1,504	917	751	653
2,935	1,699	1,365	659	102	164	105
82,727	53,069	36,785	30,481	16,959	15,237	14,261
47,634	27,671	17,376	14,068	7,900	7,019	6,554
17,342	12,359	9,783	8,757	4,967	4,383	4,237
2,749	1,983	1,286	1,063	429	434	419
7,075	4,603	3,256	2,637	1,694	1,443	1,249
302	255	197	180	—	—	—
172	68	69	—	—	—	—
75,274	46,939	31,967	26,705	14,990	13,279	12,459
7,453	6,130	4,818	3,776	1,969	1,958	1,802
1,657	1,528	1,170	809	341	137	—
5,796	4,602	3,648	2,967	1,628	1,821	1,802
—	—	—	993	—	—	—
5,796	4,602	3,648	3,960	1,628	1,821	1,802
643	636	657	579	187	192	81
$ 5,153	$ 3,966	$ 2,991	$ 3,381	$ 1,441	$ 1,629	$ 1,721
$ 14,574	$ 16,873	$ 6,199	$ 10,160	$ 2,559	$ 3,503	$ 6,334
42,876	30,618	20,960	19,159	6,644	6,131	6,491
10,978	11,145	10,950	9,849	3,365	3,452	3,500
40,864	36,665	25,140	22,671	13,758	12,693	11,901
8.25	7.41	5.93	5.39	4.31	3.98	3.74
1.04	.88	.71	.57	.45	.51	.54
.20	.20	.175	.14	.125	.125	.11
12,884	9,312	6,974	5,604	3,323	3,198	2,989
2.47	1.93	1.49	1.20	.98	.94	.91
12,661	12,576	6,066	1,075	4,173	4,233	3,919
76,461	59,413	50,831	44,218	20,897	18,372	15,567
37,327	15,580	2,914	588	466	—	—
22,868	19,801	18,685	17,270	11,097	9,695	9,105
6,728	5,868	5,100	4,407	—	—	—
4,283	2,231	1,041	421	185	117	105
6,045	5,610	5,329	4,711	3,650	3,498	3,327
705	599	852	921	570	1,012	966
298,225	179,038	123,334	102,976	75,658	64,403	57,570
4,957	4,950	4,242	4,204	3,194	3,186	3,182

CANADIAN HYDROCARBONS LIMITED

Directors

Fernand E. Chenu
Brussels, Belgium
Executive Officer, Electrorail S.A.

E. Jacques Courtois, Q.C.
Montreal, Canada
Senior Partner, Laing, Weldon, Courtois, Clarkson, Parsons, Gonthier & Tetrault

Marc H. Dhavernas
Montreal, Quebec
President, United North American Holdings Limited

Jacques Glorieux
Brussels, Belgium
Executive Officer, Electrorail S.A.

J. Howard Kelly, Q.C.
Calgary, Alberta
Barrister and Solicitor

Paul M. Marshall
Calgary, Alberta
President

Dr. Fritz Morschbach
Cologne, Germany
Executive Officer, Elektrische Licht und Kraftanlagen A.G., Munich

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Philadelphia, Pennsylvania
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Vice-President, Finance

Harold R. Allsopp
Treasurer and Assistant Secretary

John E. Carstairs
Secretary and Counsel

John L. Farrell, Jr.
Assistant Secretary

PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

Canadian Propane Gas & Oil Ltd.

Quebec Propane Inc.

Great Northern Gas Utilities Ltd.

Thunderbird Petroleums, Inc.

Gold Rey Forest Products Inc.

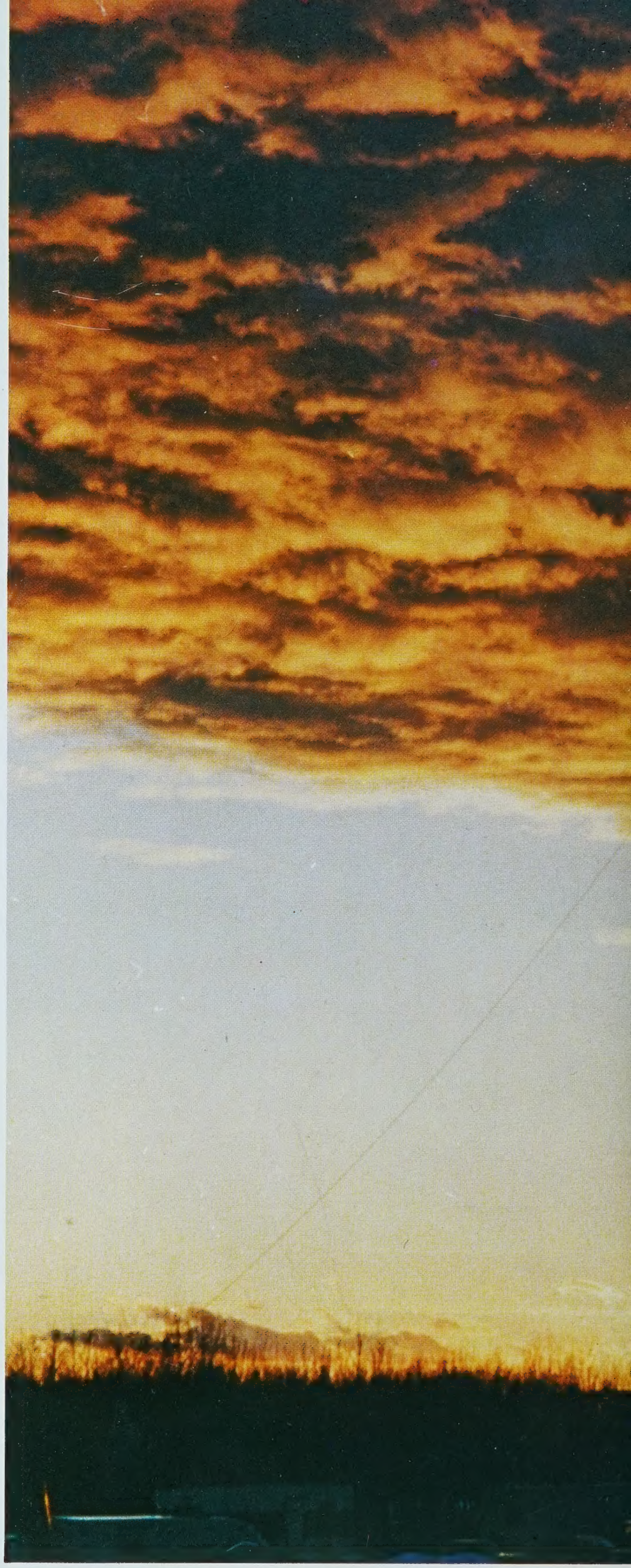
Canadian Homestead Oils Ltd.

Castle Oil & Gas Limited

Fort St. John Petroleums Ltd.

Vancouver Island Gas Company Ltd.

CANADIAN HYDROCARBONS LIMITED



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